

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

City of Gobles
Van Buren County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

City Commission
City of Gobles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Gobles, Michigan, as of June 30, 2005, and for the year then ended, which collectively comprise the City of Gobles, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the City of Gobles, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Gobles, Michigan, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, on pages 23 through 26, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Gobles, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

City Commission
City of Gobles, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gobles, Michigan's basic financial statements. The accompanying supplementary data is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

Sigfried Crandall P.C.

April 10, 2006

BASIC FINANCIAL STATEMENTS

City of Gobles
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 314,557	\$ 67,923	\$ 382,480
Receivables, net	51,116	38,786	89,902
Inventory	1,788	1,000	2,788
Internal balances	<u>30,834</u>	<u>(30,834)</u>	<u>-</u>
Total current assets	398,295	76,875	475,170
Noncurrent assets - capital assets, net of depreciation	<u>220,879</u>	<u>1,408,032</u>	<u>1,628,911</u>
Total assets	<u>619,174</u>	<u>1,484,907</u>	<u>2,104,081</u>
LIABILITIES			
Current liabilities:			
Payables	9,393	4,600	13,993
Bonds payable	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Total current liabilities	9,393	17,600	26,993
Noncurrent liabilities - bonds payable	<u>-</u>	<u>1,282,000</u>	<u>1,282,000</u>
Total liabilities	<u>9,393</u>	<u>1,299,600</u>	<u>1,308,993</u>
NET ASSETS			
Invested in capital assets, net of related debt	220,879	113,032	333,911
Restricted for street repairs and improvements	81,665	-	81,665
Unrestricted	<u>307,237</u>	<u>72,275</u>	<u>379,512</u>
Total net assets	<u>\$ 609,781</u>	<u>\$ 185,307</u>	<u>\$ 795,088</u>

See notes to the financial statements

City of Gobles
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>
Governmental activities:			
Legislative	\$ 4,380	\$ -	\$ -
General government	153,010	-	-
Public safety	83,262	6,341	-
Public works	87,855	-	75,776
Community and economic development	4,916	-	-
Culture and recreation	<u>22,878</u>	<u>-</u>	<u>-</u>
Total governmental activities	356,301	6,341	75,776
Business-type activities:			
Water	<u>178,401</u>	<u>120,477</u>	<u>-</u>
Totals	<u>\$ 534,702</u>	<u>\$ 126,818</u>	<u>\$ 75,776</u>

General revenues:
Property taxes
State shared revenue
Unrestricted interest income
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (4,380)		\$ (4,380)
(153,010)		(153,010)
(76,921)		(76,921)
(12,079)		(12,079)
(4,916)		(4,916)
<u>(22,878)</u>		<u>(22,878)</u>
(274,184)		(274,184)
	\$ <u>(57,924)</u>	<u>(57,924)</u>
<u>(274,184)</u>	<u>(57,924)</u>	<u>(332,108)</u>
212,932	-	212,932
106,003	-	106,003
1,361	301	1,662
<u>1,942</u>	<u>-</u>	<u>1,942</u>
<u>322,238</u>	<u>301</u>	<u>322,539</u>
48,054	(57,623)	(9,569)
<u>561,727</u>	<u>242,930</u>	<u>804,657</u>
<u>\$ 609,781</u>	<u>\$ 185,307</u>	<u>\$ 795,088</u>

See notes to the financial statements

City of Gobles
BALANCE SHEET - governmental funds
June 30, 2005

	Major funds			Total
	General	Major Street	Local Street	governmental funds
ASSETS				
Cash	\$ 119,040	\$ 71,831	\$ 30,294	\$ 221,165
Receivables	40,233	8,473	2,410	51,116
Prepaid expenses	1,788	-	-	1,788
Due from other funds	46,034	-	-	46,034
Total assets	<u>\$ 207,095</u>	<u>\$ 80,304</u>	<u>\$ 32,704</u>	<u>\$ 320,103</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 9,393	\$ -	\$ -	\$ 9,393
Due to other funds	13,706	23,079	8,264	45,049
Deferred revenue	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total liabilities	24,599	23,079	8,264	55,942
Fund balances - unreserved, undesignated	<u>182,496</u>	<u>57,225</u>	<u>24,440</u>	<u>264,161</u>
Total liabilities and fund balances	<u>\$ 207,095</u>	<u>\$ 80,304</u>	<u>\$ 32,704</u>	<u>\$ 320,103</u>
Total fund balances - all governmental funds				\$ 264,161
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				164,014
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				1,500
The internal service fund is used by management to charge the costs of equipment management to individual funds. The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net assets.				<u>180,106</u>
Net assets of <i>governmental activities</i>				<u>\$ 609,781</u>

See notes to the financial statements

City of Gobles**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds**

Year ended June 30, 2005

	Major funds			Total
	General	Major Street	Local Street	governmental funds
REVENUES				
Property taxes	\$ 212,932	\$ -	\$ -	\$ 212,932
Licenses and permits	6,341	-	-	6,341
State grants	106,003	52,386	14,895	173,284
Contribution from local unit	-	8,495	-	8,495
Interest	618	350	130	1,098
Other	3,442	-	-	3,442
Total revenues	329,336	61,231	15,025	405,592
EXPENDITURES				
Legislative	4,380	-	-	4,380
General government	147,474	-	-	147,474
Public safety	83,262	-	-	83,262
Public works	45,068	32,540	10,486	88,094
Culture and recreation	22,878	-	-	22,878
Community and economic development	4,916	-	-	4,916
Capital outlay	14,637	-	-	14,637
Total expenditures	322,615	32,540	10,486	365,641
NET CHANGE IN FUND BALANCES	6,721	28,691	4,539	39,951
FUND BALANCES - BEGINNING	175,775	28,534	19,901	224,210
FUND BALANCES - ENDING	\$ 182,496	\$ 57,225	\$ 24,440	\$ 264,161

See notes to the financial statements

City of Gobles

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2005

Net change in fund balances - total governmental funds	\$ 39,951
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,842
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.	(1,500)
The net revenues of the internal service fund are reported with governmental activities.	<u>9,673</u>
Change in net assets of governmental activities	<u>\$ 53,966</u>

See notes to the financial statements

City of Gobles
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2005

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal service</u>
	<u>Water</u>	
ASSETS		
Current assets:		
Cash	\$ 67,923	\$ 93,392
Receivables, net	38,786	-
Inventory	1,000	-
Due from other funds	-	39,573
	<u> </u>	<u> </u>
Total current assets	107,709	132,965
Noncurrent assets - capital assets, net of depreciation	<u>1,408,032</u>	<u>56,865</u>
	<u>1,515,741</u>	<u>189,830</u>
LIABILITIES		
Current liabilities:		
Payables	4,600	-
Due to other funds	30,834	9,724
Bonds payable	<u>13,000</u>	<u>-</u>
	<u>48,434</u>	<u>9,724</u>
Total current liabilities	48,434	9,724
Noncurrent liabilities - bonds payable	<u>1,282,000</u>	<u>-</u>
	<u>1,330,434</u>	<u>9,724</u>
NET ASSETS		
Invested in capital assets, net of related debt	113,032	56,865
Unrestricted	<u>72,275</u>	<u>123,241</u>
	<u>\$ 185,307</u>	<u>\$ 180,106</u>
Total net assets	\$ 185,307	\$ 180,106

See notes to the financial statements

City of Gobles**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET****ASSETS - proprietary funds***Year ended June 30, 2005*

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal</u>
	<u>Water</u>	<u>service</u>
OPERATING REVENUES		
Charges for services:		
Water sales	\$ 106,372	\$ -
Equipment rentals	-	39,573
Other	14,105	-
	<u>120,477</u>	<u>39,573</u>
Total operating revenues		
	<u>120,477</u>	<u>39,573</u>
OPERATING EXPENSES		
Personal services	13,626	7,486
Contractual services	11,443	450
Supplies	-	9,178
Insurance	844	2,237
Utilities	12,846	-
Repair and maintenance	17,545	1,602
Equipment rental	6,698	-
Miscellaneous	1,971	216
Depreciation	56,055	8,994
	<u>121,028</u>	<u>30,163</u>
Total operating expenses		
	<u>121,028</u>	<u>30,163</u>
OPERATING INCOME (LOSS)	<u>(551)</u>	<u>9,410</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	301	263
Interest expense	(57,373)	-
	<u>(57,072)</u>	<u>263</u>
Total nonoperating revenues (expenses)		
	<u>(57,072)</u>	<u>263</u>
CHANGE IN NET ASSETS	<u>(57,623)</u>	<u>9,673</u>
NET ASSETS - BEGINNING	<u>242,930</u>	<u>170,433</u>
NET ASSETS - ENDING	<u>\$ 185,307</u>	<u>\$ 180,106</u>

See notes to the financial statements

City of Gobles
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2005

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal service</u>
	<u>Water</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 114,731	\$ -
Receipts from interfund services provided	-	39,573
Payments to suppliers	(44,649)	(14,392)
Payments to employees	(13,626)	(7,486)
Payments for interfund services used	(6,698)	-
Net cash provided by operating activities	<u>49,758</u>	<u>17,695</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in due from other funds	-	(12,643)
Increase (decrease) in due to other funds	<u>(3,798)</u>	<u>9,724</u>
Net cash used in noncapital financing activities	<u>(3,798)</u>	<u>(2,919)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	71,000	-
Decrease in accounts receivable USDA	176,000	-
Acquisition of capital assets	(72,961)	-
Decrease in payables	(175,660)	-
Principal payments on capital debt	(13,000)	-
Interest payments on capital debt	<u>(52,773)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(67,394)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>301</u>	<u>263</u>
NET INCREASE (DECREASE) IN CASH	(21,133)	15,039
CASH - BEGINNING	<u>89,056</u>	<u>78,353</u>
CASH - ENDING	<u>\$ 67,923</u>	<u>\$ 93,392</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (551)	\$ 9,410
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	56,055	8,994
Increase in receivables	(5,746)	-
Decrease in payables	<u>-</u>	<u>(709)</u>
Net cash provided by operating activities	<u>\$ 49,758</u>	<u>\$ 17,695</u>

See notes to the financial statements

City of Gobles

STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund*

June 30, 2005

ASSETS

Cash	\$ <u>11,405</u>
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LIABILITIES

Due to other governmental units	\$ <u>11,405</u>
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See notes to the financial statements

City of Gobles
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Gobles, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the City. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the City exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

The City reports the following major proprietary fund:

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the City reports an internal service fund that accounts for equipment management services provided to other departments of the City on a cost-reimbursement basis, and, the Agency Fund, a fiduciary fund, which accounts for financial assets held for other units of government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund is charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand and demand deposits.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	5 - 20 years
Vehicles	5 years
Water systems	10 - 40 years

iv) Compensated absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the City's general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

NOTE 3 - CASH:

The City's deposits were reported in the basic financial statements as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Petty cash	\$ 50	\$ -	\$ -	\$ 50
Deposits	<u>314,507</u>	<u>67,923</u>	<u>11,405</u>	<u>393,835</u>
Totals	<u>\$ 314,557</u>	<u>\$ 67,923</u>	<u>\$ 11,405</u>	<u>\$ 393,885</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At June 30, 2005, \$328,915 of the City's bank balances of \$428,915 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

At June 30, 2005, the City's receivables for the individual major funds are as follows:

	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Water</u>	<u>Totals</u>
Accounts	\$ -	\$ -	\$ -	\$ 38,786	\$ 38,786
Intergovernmental	37,922	8,473	2,410	-	48,805
Property taxes	<u>2,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,311</u>
Totals	<u>\$ 40,233</u>	<u>\$ 8,473</u>	<u>\$ 2,410</u>	<u>\$ 38,786</u>	<u>\$ 89,902</u>

All receivables are due within one year and are considered fully collectible.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 8,000	\$ -	\$ -	\$ 8,000
Capital assets being depreciated:				
Buildings	60,008	-	-	60,008
Equipment	138,500	8,880	-	147,380
Vehicles	12,735	-	-	12,735
Street infrastructure	118,247	-	-	118,247
Subtotal	329,490	8,880	-	338,370
Less accumulated depreciation for:				
Buildings	22,171	2,114	-	24,285
Equipment	72,642	9,917	-	82,559
Vehicles	12,735	-	-	12,735
Street infrastructure	-	5,912	-	5,912
Subtotal	107,548	17,943	-	125,491
Total capital assets being depreciated, net	221,942	(9,063)	-	212,879
Governmental activities capital assets, net	\$ 229,942	\$ (9,063)	\$ -	\$ 220,879
Business-type activities:				
Capital assets not being depreciated - land	\$ 2,500	\$ -	\$ -	\$ 2,500
Capital assets being depreciated - water system	1,875,801	72,961	-	1,948,762
Less accumulated depreciation for - water system	487,175	56,055	-	543,230
Total capital assets being depreciated, net	1,388,626	16,906	-	1,405,532
Business-type activities capital assets, net	\$ 1,391,126	\$ 16,906	\$ -	\$ 1,408,032

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 3,037
Public works	5,912
Depreciation on capital assets held by internal service funds	<u>8,994</u>
Total governmental activities	<u>\$ 17,943</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2005, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Fund</u>	<u>Payables</u>
General	\$ 46,034	Water	\$ 24,136
		Major Streets	9,324
		Local Streets	2,849
		Motor Pool Fund	<u>9,725</u>
			<u>46,034</u>
Motor Pool Fund	<u>39,573</u>	Major Streets	13,755
		Local Streets	5,415
		Water	6,698
		General	<u>13,705</u>
			<u>39,573</u>
Total	<u>\$ 85,607</u>	Total	<u>\$ 85,607</u>

The payables to the General Fund represent amounts due for employee compensation and the payables to the Motor Pool Fund represent amounts due for equipment rentals.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - NONCURRENT LIABILITIES:

At June 30, 2005, noncurrent liabilities are comprised of the following:

\$1,320,000 2003 USDA Water Revenue Bonds, due in annual installments between \$12,000 to \$64,000; plus interest through June 2042. The bonds are secured by the City's full faith and credit.

Noncurrent liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Business-type activity:					
2003 USDA Water Bonds	\$ 1,237,000	\$ 71,000	\$ 13,000	\$ 1,295,000	\$ 13,000

At June 30, 2005, debt service requirements were as follows:

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2006	\$ 13,000	\$ 55,038
2007	14,000	54,486
2008	15,000	53,890
2009	15,000	53,252
2010	16,000	52,616
2011 - 2015	91,000	252,282
2016 - 2020	115,000	230,988
2021 - 2025	142,000	204,384
2026 - 2030	178,000	171,320
2031 - 2035	221,000	129,880
2036 - 2040	277,000	78,372
2041 - 2043	196,000	17,086
Totals	<u>\$ 1,293,000</u>	<u>\$ 1,353,594</u>

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN:

On January 10, 1994, the City adopted a defined contribution plan, specifically referred to as the City of Gobles Deferred Compensation Savings Plan (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statutes assign the authority to establish and amend benefit provisions to the City Commission. All full-time employees are eligible to participate. Employees may elect to defer the lesser of 100% of taxable compensation or a dollar amount limitation in accordance with the Internal Revenue Code. The City will match 50% of the employees' contributions, to a maximum of \$400. City contributions on behalf of a participant for a plan year shall not exceed \$400 or 10% of earnings, whichever is less.

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN (Continued):

The City's contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. The City is not a trustee of the Plan, nor is the City responsible for investment management of plan assets.

During the year ended June 30, 2005, the City and its employees made contributions of \$1,200 and \$2,880, respectively.

NOTE 9 - JOINT FIRE PROTECTION AGREEMENT:

In 1985, the City entered into an agreement with the Township of Pine Grove (the Township) to provide joint fire protection to the area. Under the agreement, a Governing Board (the Board), comprised of two members each from the Township and the City and one independent member, shall maintain the records and be responsible for the joint venture. The Board derives its revenues from taxes levied by the City and the Township and fire protection contracts with other local governmental units. Upon dissolution, the property each municipality has conveyed to the Board shall be returned to the party, which had contributed it, and the property acquired by the Board would be distributed to the parties in direct proportion to the amounts each had contributed to the funds from which the property was acquired. During the year ended June 30, 2005, the City contributed \$20,720 for its share of the general operating expenditures. Audited financial statements can be obtained from the Clerk of the Township.

NOTE 10 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to \$1,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2005, were as follows:

Revenues	\$ 2,444
Expenses	<u>(4,399)</u>
Deficiency of revenues over expenses	<u>\$ (1,955)</u>

City of Gobles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS:

P.A. 621 of 1978, Section 18(3), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the activity level.

During the year ended June 30, 2005, the City incurred expenditures which were in excess of the amounts appropriated.

The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Elections	\$ 2,450	\$ 4,784	\$ 2,334
	Public safety	Fire protection	19,000	20,720	1,720
	Culture and recreation	Parks and recreation	19,700	22,878	3,178
	Community and economic development	Planning	-	4,916	4,916
	Capital outlay	Capital outlay	7,300	14,637	7,337

NOTE 13 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded in 2005 that resulted in fund balance restatements. Fund balances as of July 1, 2004, included in the fund statements, represents restated balances as presented below.

	<u>Major Street Fund</u>	<u>Local Street Fund</u>
Balance - beginning of year:		
As previously reported	\$ 114,503	\$ 52,179
Adjustment for understatement of accounts payable	<u>(85,969)</u>	<u>(32,278)</u>
As restated	<u>\$ 28,534</u>	<u>\$ 19,901</u>

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 205,643	\$ 205,643	\$ 212,932	\$ 7,289
Licenses and permits	3,800	3,800	6,341	2,541
State grants	108,597	108,597	106,003	(2,594)
Interest	720	720	618	(102)
Other	8,249	8,249	3,442	(4,807)
Total revenues	<u>327,009</u>	<u>327,009</u>	<u>329,336</u>	<u>2,327</u>
EXPENDITURES				
Legislative - City Commission	<u>6,500</u>	<u>6,500</u>	<u>4,380</u>	<u>2,120</u>
General government:				
Elections	2,450	2,450	4,784	(2,334)
Assessor	8,850	8,850	8,424	426
Board of review	500	500	450	50
Building and grounds	44,129	44,129	38,797	5,332
Cemetery	1,000	1,000	1,000	-
Administration	93,365	93,365	94,019	(654)
Total general government	<u>150,294</u>	<u>150,294</u>	<u>147,474</u>	<u>2,820</u>
Public safety:				
Police protection	56,500	56,500	55,149	1,351
Fire protection	19,000	19,000	20,720	(1,720)
Inspections	3,399	3,399	4,398	(999)
Crossing guard	5,750	5,750	2,995	2,755
Total public safety	<u>84,649</u>	<u>84,649</u>	<u>83,262</u>	<u>1,387</u>
Public works:				
Department of Public Works	47,765	47,765	39,207	8,558
Street lighting	7,200	7,200	5,861	1,339
Total public works	<u>54,965</u>	<u>54,965</u>	<u>45,068</u>	<u>9,897</u>

City of Gobles**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Culture and recreation - parks and recreation	<u>\$ 19,700</u>	<u>\$ 19,700</u>	<u>\$ 22,878</u>	<u>\$ (3,178)</u>
Community and economic development - planning	<u>-</u>	<u>-</u>	<u>4,916</u>	<u>(4,916)</u>
Capital outlay	<u>7,300</u>	<u>7,300</u>	<u>14,637</u>	<u>(7,337)</u>
Total expenditures	<u>323,408</u>	<u>323,408</u>	<u>322,615</u>	<u>793</u>
NET CHANGE IN FUND BALANCES	3,601	3,601	6,721	3,120
FUND BALANCES - BEGINNING	<u>175,775</u>	<u>175,775</u>	<u>175,775</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 179,376</u>	<u>\$ 179,376</u>	<u>\$ 182,496</u>	<u>\$ 3,120</u>

City of Gobles**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 52,000	\$ 52,000	\$ 52,386	\$ 386
Contribution from local unit	-	-	8,495	8,495
Interest income	<u>500</u>	<u>500</u>	<u>350</u>	<u>(150)</u>
Total revenues	<u>52,500</u>	<u>52,500</u>	<u>61,231</u>	<u>8,731</u>
EXPENDITURES				
Public works:				
Routine maintenance	24,000	24,000	11,431	12,569
Traffic services	13,500	13,500	10,899	2,601
Winter maintenance	<u>15,000</u>	<u>15,000</u>	<u>10,210</u>	<u>4,790</u>
Total expenditures	<u>52,500</u>	<u>52,500</u>	<u>32,540</u>	<u>19,960</u>
NET CHANGE IN FUND BALANCES	-	-	28,691	28,691
FUND BALANCES - BEGINNING	<u>28,534</u>	<u>28,534</u>	<u>28,534</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 28,534</u>	<u>\$ 28,534</u>	<u>\$ 57,225</u>	<u>\$ 28,691</u>

City of Gobles**BUDGETARY COMPARISON SCHEDULE - Local Street Fund**

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 14,900	\$ 14,900	\$ 14,895	\$ (5)
Interest income	<u>280</u>	<u>280</u>	<u>130</u>	<u>(150)</u>
Total revenues	<u>15,180</u>	<u>15,180</u>	<u>15,025</u>	<u>(155)</u>
EXPENDITURES				
Public works:				
Routine maintenance	6,136	6,136	1,181	4,955
Traffic services	4,428	4,428	4,972	(544)
Winter maintenance	7,116	7,116	3,983	3,133
Administration	<u>-</u>	<u>-</u>	<u>350</u>	<u>(350)</u>
Total expenditures	<u>17,680</u>	<u>17,680</u>	<u>10,486</u>	<u>7,194</u>
NET CHANGE IN FUND BALANCES	(2,500)	(2,500)	4,539	7,039
FUND BALANCES - BEGINNING	<u>19,901</u>	<u>19,901</u>	<u>19,901</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 17,401</u>	<u>\$ 17,401</u>	<u>\$ 24,440</u>	<u>\$ 7,039</u>

SUPPLEMENTARY DATA

City of Gobles**SCHEDULE OF BOND RETIREMENT AND ANNUAL INTEREST REQUIREMENTS -
\$1,320,000 2003 USDA WATER REVENUE BONDS**

June 30, 2005

<u>Fiscal period</u>	<u>Interest requirements</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
	<u>December 1</u>	<u>June 1</u>			
2006	\$ 27,519	\$ 27,519	6/01/06	\$ 13,000	\$ 68,038
2007	27,243	27,243	6/01/07	14,000	68,486
2008	26,945	26,945	6/01/08	15,000	68,890
2009	26,626	26,626	6/01/09	15,000	68,252
2010	26,308	26,308	6/01/10	16,000	68,616
2011	25,968	25,968	6/01/11	17,000	68,936
2012	25,606	25,606	6/01/12	17,000	68,212
2013	25,245	25,245	6/01/13	18,000	68,490
2014	24,863	24,863	6/01/14	19,000	68,726
2015	24,459	24,459	6/01/15	20,000	68,918
2016	24,034	24,034	6/01/16	21,000	69,068
2017	23,588	23,588	6/01/17	22,000	69,176
2018	23,120	23,120	6/01/18	23,000	69,240
2019	22,631	22,631	6/01/19	24,000	69,262
2020	22,121	22,121	6/01/20	25,000	69,242
2021	21,590	21,590	6/01/21	26,000	69,180
2022	21,038	21,038	6/01/22	27,000	69,076
2023	20,464	20,464	6/01/23	28,000	68,928
2024	19,869	19,869	6/01/24	30,000	69,738
2025	19,231	19,231	6/01/25	31,000	69,462
2026	18,573	18,573	6/01/26	32,000	69,146
2027	17,893	17,893	6/01/27	34,000	69,786
2028	17,170	17,170	6/01/28	36,000	70,340
2029	16,405	16,405	6/01/29	37,000	69,810
2030	15,619	15,619	6/01/30	39,000	70,238
2031	14,790	14,790	6/01/31	41,000	70,580
2032	13,919	13,919	6/01/32	42,000	69,838
2033	13,026	13,026	6/01/33	44,000	70,052
2034	12,091	12,091	6/01/34	46,000	70,182
2035	11,114	11,114	6/01/35	48,000	70,228
2036	10,094	10,094	6/01/36	51,000	71,188
2037	9,010	9,010	6/01/37	53,000	71,020
2038	7,884	7,884	6/01/38	55,000	70,768
2039	6,715	6,715	6/01/39	58,000	71,430
2040	5,483	5,483	6/01/40	60,000	70,966
2041	4,208	4,208	6/01/41	63,000	71,416
2042	2,869	2,869	6/01/42	66,000	71,738
2043	1,466	1,466	6/01/43	69,000	71,932
	<u>\$ 676,797</u>	<u>\$ 676,797</u>		<u>\$ 1,295,000</u>	<u>\$ 2,648,594</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS

City Commission
City of Gobles, Michigan

In planning and performing our audit of the financial statements of the City of Gobles for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. These matters are set forth in the accompanying schedule of comments and recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions that are also considered to be material weaknesses, as defined above.

Siegfried Crandall P.C.

April 10, 2006

City of Gobles
COMMENTS AND RECOMMENDATIONS

Timely recording of financial transactions

Finding:

Financial transactions of the City were not always recorded in a timely manner. Certain revenues and expenditures (expenses) were recorded in the accounting records considerably later than when the revenue was received or the expenditure (expense) was incurred. When financial information is not recorded in a timely manner, the City loses its ability to adequately monitor financial activity.

Recommendation:

The City should establish policies and procedures to ensure that its financial transactions are recorded in a timely manner. These procedures could include monitoring of the detail records on a monthly basis by the Finance Committee. The Clerk should be responsible for recording the transactions while the Finance Committee could be responsible for the regular review of the detail records.

We are aware that the Clerk has made efforts to record the transactions for the fiscal year ending June 30, 2006, within the City's new automated accounting software. We commend the Clerk for these efforts and recommend that the Finance Committee monitor the accounting records to ensure that all transactions are recorded in a timely manner.

Budget monitoring

Finding:

Local units of government in Michigan are required to adopt a budget to control and monitor expenditures. The City has not established policies and procedures to demonstrate timely presentation and approval of budget amendments. As a result, the City incurred expenditures in excess of appropriations in several activities of the General Fund.

Recommendation:

The City should review the provisions of Public Act 621 of 1978 (the Budget Act) and the Budget Manual, prepared by the Local Audit Division of the Michigan Department of Treasury, to develop appropriate policies and procedures related to the monitoring of its budgetary compliance. The City should amend its budgets in a timely manner, when necessary. Appropriate management personnel should be involved in the budget development and monitoring processes to create a more meaningful management tool and obtain plausible explanations of significant variations in a timely manner.